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Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Richard Neiman

Congressional Oversight Panel Hearing on Commercial Real Estate

February 4, 2011

Good morning, and thank you to our witnesses for appearing today at this hearing of the Congressional Oversight Panel on commercial real estate lending. The Panel first explored issues around commercial real estate at our field hearings in New York City in 2009 and Atlanta in January of last year.

In the time since then, there is reason to remain concerned about mounting pressure in the commercial real estate sector. Financial stability overall has been returning, but this nascent recovery is still vulnerable to shocks. The concern is that the credit risk, and particularly the maturity risk, embedded in commercial real estate loans could provide just such a trigger in the near-term.

It is estimated that hundreds of billions of dollars in commercial real estate debt will be maturing through 2014. The prospects for refinancing this debt are uncertain, as the recession and high levels of unemployment continue to put downward pressure on property values and reduce rent rolls. This could even jeopardize the viability of loans that were properly underwritten. These difficulties may weigh heavily on mid-size and community banks, which are comparatively more concentrated in commercial real estate than larger institutions.

But the future of commercial real estate lending matters to more than just a subset of lenders and borrowers. Commercial real estate impacts every community on multiple levels, so understanding this sector is an important aspect of stabilizing our national economy. We are talking about the office buildings, shopping malls and hotels that shelter jobs. Mortgages that help businesses remain open are critical to economic recovery.

Commercial real estate also includes multifamily and affordable housing units. For apartment buildings in particular, there is a concern that the property's condition will deteriorate as owners' cash flow is diverted to making debt payments. Further, tenants who pay their rent on time can find themselves homeless, because their landlord defaulted on the underlying commercial mortgage. Workouts for distressed loans on multifamily properties should be structured with community preservation goals in mind.

So in my questions this morning, I will be exploring this connection between the well-being of our society and financial stability. There are many open issues, such as-

- What steps are being taken at the national level to protect renters in multifamily properties during a foreclosure?
- Are tightened underwriting standards being set at the right level to ensure prudent loans, or is credit being artificially restricted?
- And are banks adequately prepared for additional loan losses that may be coming?

I look forward to the witnesses' responses on these issues and to hearing your innovative ideas on stabilizing commercial real estate.